

Exhibit No.:  
Issue(s): Capital Structure  
Witness: Darryl Sagel  
Type of Exhibit: Rebuttal Testimony  
Sponsoring Party: Union Electric Company  
File No.: ER-2021-0240  
Date Testimony Prepared: October 15, 2021

**MISSOURI PUBLIC SERVICE COMMISSION**

**FILE NO. ER-2021-0240**

**REBUTTAL TESTIMONY**

**OF**

**DARRYL SAGEL**

**ON**

**BEHALF OF**

**UNION ELECTRIC COMPANY**

**D/B/A AMEREN MISSOURI**

**St. Louis, Missouri  
October, 2021**

## TABLE OF CONTENTS

I.	INTRODUCTION .....	1
II.	PURPOSE OF TESTIMONY .....	1
III.	SUMMARY RESPONSE TO OPC WITNESS DAVID MURRAY'S TESTIMONY RECOMMENDATION .....	2
IV.	AMEREN MISSOURI'S CAPITAL STRUCTURE IS INDEPENDENTLY MANAGED AND EXCLUSIVELY FINANCES AMEREN MISSOURI RATE BASE .....	5
V.	AMEREN CORPORATION'S CAPITAL STRUCTURE IS INDEPENDENTLY MANAGED AND HAS NOT NEGATIVELY IMPACTED AMEREN MISSOURI'S FINANCIAL AND CREDIT POSITION.....	12
VI.	PASSAGE OF SENATE BILL 564 HAS NOT DIRECTLY IMPACTED THE COMPANY'S CREDIT RATINGS, ITS KEY RATING AGENCY CREDIT METRIC THRESHOLDS, OR ITS RELATIVE COST OF CAPITAL.....	15
VII.	THE USE OF A PARENT COMPANY OR HYPOTHETICAL CAPITAL STRUCTURE FOR AMEREN MISSOURI IN THIS PROCEEDING IS NOT JUSTIFIED .....	28
VIII.	AMEREN MISSOURI'S PROPOSED COMMON EQUITY RATIO IS CONSISTENT WITH UTILITY PEERS AND SUPPORTS STRONG AND STABLE CREDIT RATINGS.....	30

**REBUTTAL TESTIMONY**

**OF**

**DARRYL SAGEL**

**FILE NO. ER-2021-0240**

**I. INTRODUCTION**

**Q. Please state your name and business address.**

A. My name is Darryl Sagel. My business address is One Ameren Plaza, 1901 Chouteau Ave., St. Louis, Missouri.

**Q. Are you the same Darryl Sagel that submitted direct testimony in this case?**

A. Yes, I am.

**II. PURPOSE OF TESTIMONY**

**Q. To what testimony or issues are you responding?**

A. I am responding to the direct testimony of David Murray on behalf of the Office of Public Counsel ("OPC") submitted in this proceeding as it relates to OPC's recommended capital structure for Ameren Missouri (the "Company").

**Q. Are you sponsoring any schedules in connection with your testimony?**

A. Yes, I am sponsoring, and have attached to my rebuttal testimony, the following schedules, which have been prepared under my direction:

- Schedule DTS-R1 – Ameren Corporation Stock Price Performance Versus Electric Utility Peers (May 31, 2018 – September 30, 2021)
- Schedule DTS-R2 – Ameren Corporation NTM P/E Multiples Versus Electric Utility Peers (May 31, 2018 – September 30, 2021)



- 1           • Despite Ameren Corporation having employed more leverage in its capital  
2           structure over the past several years, its capital allocation strategy and its  
3           funding approach across each of its regulated utility businesses have  
4           assisted in maintaining Ameren Corporation's consolidated credit profile  
5           and, perhaps more pertinent to this proceeding, have not resulted in any  
6           negative impact on Ameren Missouri's stand-alone credit profile.
- 7           • Recent improvements in Missouri's regulatory framework, specifically the  
8           election of partial plant-in-service accounting ("PISA") in 2018, have had  
9           no demonstrable positive impact on the Company's credit metrics, its credit  
10          profile or its access to, and cost of, debt and equity capital.
- 11          • Ameren Missouri's common equity ratio for ratemaking purposes of  
12          \*\* \_\_\_\_%\*\*<sup>2</sup> projected as of September 30, 2021, is consistent with  
13          common equity ratios maintained by its utility peers and consistent with the  
14          Company's actual common equity ratios over the past several years.
- 15          • Ameren Missouri's capital structure supports strong and stable investment  
16          grade credit ratings, allowing the Company to access debt capital at a  
17          competitive cost through various market cycles, to the benefit of Ameren  
18          Missouri customers. The arbitrary use of Ameren Corporation's capital  
19          structure would weaken the Company's credit profile, including cash flows  
20          and key credit metrics, thereby increasing the likelihood of Ameren

---

<sup>2</sup> Ameren Missouri updated the projected common equity ratio based on actual results through August 2021 and forecasted net income for September 2021 and expects the actual common equity ratio, to be updated in the true-up, to be approximately \*\* \_\_\_\_%.

1 Missouri suffering a ratings downgrade and experiencing the impact of  
2 stock price pressure on Ameren Corporation's shares, both of which would  
3 increase the Company's cost of capital and potentially result in higher  
4 customer rates.

5 **Q. What rationale does Mr. Murray provide for disregarding Ameren**  
6 **Missouri's actual capital structure?**

7 A. Mr. Murray justifies his proposed capital structure that consists of  
8 approximately 45% common equity as the capital structure that "best represents the amount of  
9 debt capacity Ameren Corp. considers reasonable and appropriate for its regulated utility assets,  
10 including Ameren Missouri."<sup>3</sup> To the contrary, neither Ameren Corporation nor Ameren  
11 Missouri believe that Ameren Corporation's consolidated capital structure, net of short-term  
12 debt, is reasonable or appropriate for the regulated utilities owned by Ameren Corporation,  
13 including Ameren Missouri. Each of the capital structures of Ameren Corporation and its  
14 regulated subsidiaries, including the Company, are managed independently in a manner that  
15 supports an appropriate balance between financial stability and customer affordability and  
16 considers discrete business, operational, regulatory and financial issues specific to the legal  
17 entity. My direct testimony in this proceeding, as well as the rebuttal testimony herein, explicitly  
18 support the use of Ameren Missouri's actual capital structure for the purpose of establishing  
19 rates in this proceeding.

20 In addition, Mr. Murray seems to conveniently ignore the risk that utilizing Ameren  
21 Corporation's capital structure, which contains lower equity content than Ameren Missouri's

---

<sup>3</sup> File NO. ER-2021-0240, Direct Testimony of David Murray, page 30, ll.19-21.

1 actual capital structure, could result in an increase to the Company's cost of capital and by  
2 consequence, its customer rates. I discuss this concept later in my testimony.

3 **IV. AMEREN MISSOURI'S CAPITAL STRUCTURE IS INDEPENDENTLY**  
4 **MANAGED AND EXCLUSIVELY FINANCES AMEREN MISSOURI**  
5 **RATE BASE**

6 **Q. Mr. Murray suggests that Ameren Corporation is "... managing its**  
7 **regulated utility subsidiary capital structures primarily for purposes of ratemaking."<sup>4</sup>**  
8 **How do you respond?**

9 A. I struggle to understand what Mr. Murray means or is trying to insinuate by  
10 suggesting that Ameren Corporation manages the capital structure of Ameren Missouri "for the  
11 purposes of ratemaking." Perhaps he is implying that the Company's capital structure is  
12 controlled exclusively for the benefit of Ameren Corporation shareholders, which could not be  
13 further from the truth. To respond to this assertion, however, I will reiterate that Ameren  
14 Missouri's capital structure is independently evaluated, developed and managed over time in a  
15 manner that appropriately considers its stand-alone financial health and risk profile, while  
16 ensuring timely access to both equity and debt capital at reasonable costs. This independent  
17 management supports the continued use of Ameren Missouri's actual capital structure for the  
18 purpose of setting rates in this proceeding. Contrary to Mr. Murray's assertion, Ameren  
19 Corporation's and Ameren Missouri's financing decisions and objectives do not "primarily  
20 concentrate on the amount of leverage Ameren Corp. can carry on a consolidated basis."<sup>5</sup>  
21 Because Ameren Corporation does not expressly dictate Ameren Missouri's capital structure,

---

<sup>4</sup> File No. ER-2021-0240, Direct Testimony of David Murray, page 30, l. 25 to page 31, l.1.

<sup>5</sup> File No. ER-2021-0240, Direct Testimony of David Murray, page 43, ll.15-16.

1 but rather works mutually with Ameren Missouri to identify objective considerations for  
2 establishing a prudent capital structure (as discussed below), there is no conflict of interest  
3 between Ameren Corporation and Ameren Missouri, as Mr. Murray insinuates.

4 Mr. Murray points to the fact that Ameren Missouri's capital structure having remained  
5 in close proximity to its authorized ratemaking capital structures over time (e.g., Ameren  
6 Missouri's common equity ratios for rate cases since 2010 have been in the range of 51.26% to  
7 52.30%)<sup>6</sup> as evidence that Ameren Corporation is managing the Company's capital structure for  
8 the benefit of Ameren Corporation shareholders. I characterize such historical balance sheet  
9 performance as prudent capital management, taking into consideration appropriate financial,  
10 operational and regulatory factors.

11 **Q. How does Ameren Missouri independently manage its capital structure?**

12 A. The Company's capital structure is independently managed through an approach  
13 that supports maintaining the Company's financial strength and integrity at a reasonable cost to  
14 its customers. Ameren Missouri finances itself through its own public issuances, maintains its  
15 own credit ratings and produces separate filings for the Securities and Exchange Commission  
16 ("SEC"). Evaluation and management of a suitable Ameren Missouri capital structure over time  
17 involves sensible consideration of Ameren Missouri-specific business and financial risk,  
18 including key rating agency-defined credit metrics required to support its strong and stable  
19 investment grade credit ratings. Despite Ameren Corporation's owning and financing other  
20 regulated businesses not directly related to Ameren Missouri, Ameren Missouri's capital  
21 structure is specifically managed over time to ensure continued financial strength, as well as to  
22 maintain a credit profile that provides the Company timely access to required capital to fund

---

<sup>6</sup> File No. ER-2021-0240, Direct Testimony of David Murray, page 37, ll. 19-20.



1 Ameren Missouri operations and to support its obligation to provide safe and adequate service  
2 to all customers in its service territory, at a competitive cost for the benefit of Ameren Missouri  
3 customers.

4 From a governance standpoint, Ameren Missouri has in place a separate Board of  
5 Directors currently comprised of five individuals, three of whom are officers of Ameren  
6 Missouri and two of whom are officers of Ameren Corporation. The Board of Directors of  
7 Ameren Missouri meets at least quarterly and exerts oversight of key regulatory, legal,  
8 managerial and financial matters. As part of its responsibilities for financial oversight and  
9 fiscal discipline, the Board of Directors of Ameren Missouri approves the Company's  
10 capital budget and financings, as well as all cash distributions (i.e., dividends) from  
11 Ameren Missouri to Ameren Corporation. Through the exercise of the subsidiary Board's  
12 fiduciary duties, the Company exerts significant independent control of its capital structure.

13 **Q. Why is the actual capital financing of Ameren Missouri's rate base**  
14 **relevant?**

15 A. Ameren Missouri's actual capital structure is relevant and appropriate for  
16 ratemaking purposes because it is the only capital that is financing Ameren Missouri's  
17 jurisdictional rate base to which the overall rate of return set in this proceeding will be  
18 applied. In contrast, the hypothetical capital structure proposed by Mr. Murray contains  
19 capital that does not finance Ameren Missouri's jurisdictional rate base and is not available  
20 for investment in Ameren Missouri by Ameren Corporation. Thus, Ameren Missouri  
21 should be evaluated as a stand-alone entity, including with regard to its capital structure.  
22 To do otherwise violates the basic financial principle that the use of funds invested gives  
23 rise to the risk of the investment. It is fundamental that individual investors expect a return

1 commensurate with the risk associated with where their capital is invested. In this  
2 proceeding, that capital is both provided by and invested in Ameren Missouri. Therefore,  
3 Ameren Missouri must be viewed on its own merits, including the actual capital structure  
4 financing its rate base.

5 **Q. Can you specifically identify the sources of Ameren Missouri's**  
6 **independently-managed capital?**

7 A. Ameren Missouri's capital structure represents the actual dollars that are  
8 financing the jurisdictional rate base to which the rate of return authorized in this  
9 proceeding will be applied. In contrast, the hypothetical capital structure proposed by Mr.  
10 Murray contains capital that does not finance Ameren Missouri's jurisdictional rate base.  
11 Ameren Missouri's entire long-term debt balance consists of long-term debt marketed and  
12 issued by Ameren Missouri to third-party investors. Ameren Missouri's long-term debt is  
13 secured exclusively by its own assets and not the assets of Ameren Corporation or the other  
14 Ameren Corporation utility subsidiaries, Ameren Illinois and Ameren Transmission  
15 Company of Illinois ("ATXI"). In addition, Ameren Missouri's assets do not guarantee  
16 Ameren Corporation's, Ameren Illinois', or ATXI's long-term debt. Moreover, when  
17 Ameren Missouri seeks to raise long-term external capital, it must navigate a defined  
18 process to achieve financing authority from the Commission, whereby the Company must  
19 demonstrate that such financing is being utilized to fund long-term assets and the regulated  
20 operations of the business.

21 Similarly, Ameren Missouri's entire preferred stock balance consists of preferred  
22 stock marketed and issued by Ameren Missouri to third-party investors. Ameren Missouri's  
23 common equity balance consists of common equity contributions from Ameren

1 Corporation and retained Ameren Missouri earnings. The common equity invested over  
2 time by Ameren Corporation in Ameren Missouri has been specifically financed with  
3 common equity raised by Ameren Corporation from third-party investors. For example, in  
4 August 2019, Ameren Corporation issued 7.5 million common shares under a forward sale  
5 agreement. Upon settlement of the shares sold forward, which occurred at two distinct  
6 times in December 2020 and February 2021, Ameren Corporation received net proceeds  
7 of \$538 million. That amount was entirely and immediately contributed to Ameren  
8 Missouri and Ameren Missouri, in turn, used it to finance a portion of the Company's 700  
9 mega-watt ("MW") wind generation investment.

10 Furthermore, all of Ameren Missouri's capital supports Ameren Missouri's rate  
11 base, and no portion of the Company's rate base is supported by capital outside of Ameren  
12 Missouri. Mr. Murray suggests that "there is no way to trace the capital once Ameren Corp.  
13 receives it and redeploys it as it deems consistent with its organizational objectives."<sup>7</sup> That  
14 statement is false because the capital that Ameren Missouri receives from Ameren  
15 Corporation is quite easily traceable as it is sourced exclusively from common equity raised  
16 by Ameren Corporation from third-party investors.

17 **Q. Are any of Ameren Missouri's assets pledged to support obligations of**  
18 **Ameren Corporation or any of Ameren Corporation's subsidiaries, or does Ameren**  
19 **Missouri rely on Ameren Corporation to support any Ameren Missouri long-term**  
20 **debt obligations?**

21 A. As discussed above, Ameren Missouri's assets are not used in any way to  
22 provide support for, or guarantee obligations of, Ameren Corporation, Ameren Illinois or

---

<sup>7</sup> File No. ER-2021-0240. Direct Testimony of David Murray, page 35, l. 27 to page 36, l.1.

1 ATXI. Ameren Missouri does not rely upon any balance sheet support of Ameren  
2 Corporation to satisfy its debt obligations.

3 **Q. Mr. Murray calls into question Ameren Missouri's capital structure**  
4 **having remained relatively constant in recent years. Does the fact that Ameren**  
5 **Missouri has maintained a capital structure with approximately 52% common equity**  
6 **over the last several years, and in this proceeding has filed to preserve this common**  
7 **equity ratio, provide evidence that Ameren Corporation is managing Ameren**  
8 **Missouri capital structure for the benefit of Ameren Corporation's shareholders?**

9 A. No. It only evidences the fact that Ameren Missouri believes that the  
10 approximately 52% common equity ratio has been, and continues to be, the appropriate  
11 amount of equity content to preserve its healthy financial profile while ensuring timely  
12 access to both equity and debt capital at reasonable costs.

13 **Q. Mr. Murray suggests that Ameren Missouri's lack of a dividend policy,**  
14 **similar to Ameren Corporation's targeted dividend payout ratio, supports the fact**  
15 **that Ameren Missouri's capital structure is not managed independently. How do you**  
16 **respond?**

17 A. I actually believe that Ameren Missouri's failure to individually adhere to  
18 Ameren Corporation's published dividend policy over time further evidences Ameren  
19 Missouri's independent financial management. As previously indicated, Ameren Missouri's  
20 Board of Directors exercises discretion over the amount of dividends paid to Ameren  
21 Corporation over time, considering, among other factors, its own capital reinvestment  
22 needs and maintaining a prudent capital structure. It is true that Ameren Missouri has  
23 distributed more cash to Ameren Corporation on both an absolute and relative basis in

1 recent years versus the other regulated subsidiaries (Ameren Illinois and ATXI). Some of  
2 that cash has been used to support payment of Ameren Corporation's common dividend,  
3 though the level of dividend payments by Ameren Missouri to Ameren Corporation has  
4 declined since 2017, as the Company has increased the scale of its investment program in  
5 the state. Stated differently, Ameren Missouri's dividend payout ratio has been higher than  
6 both Ameren Illinois and ATXI in recent years, and has fluctuated significantly on a year-  
7 over-year basis. Had Ameren Missouri established an independent dividend policy that  
8 fixed its targeted payout ratio more in line with the other regulated subsidiaries or with  
9 Ameren Corporation, as Mr. Murray offers it should have as an independently-managed  
10 business, it would have paid out less dividends over time. The consequence of paying out  
11 less dividends would have been an Ameren Missouri common equity ratio that is higher  
12 today than the equity content in the Company's actual capital structure, which we believe  
13 should be used in this proceeding. This runs counter to Mr. Murray's fundamental  
14 contention that Ameren Missouri is underleveraged. Rather, Ameren Missouri's  
15 independent financial oversight has allowed the Company to manage its capital structure  
16 in a responsible and prudent manner.

17 As noted above, following the passage of Senate Bill 564 ("SB 564") in 2018 and  
18 the related implementation of PISA, Ameren Missouri announced its intention to accelerate  
19 capital spending in the state under its Smart Energy Plan filed with the Commission in  
20 February 2019. As a result of this program to modernize the energy grid and add renewable  
21 resources for the benefit of Ameren Missouri's customers, Ameren Missouri has reinvested  
22 a larger percentage of its internal cash flow over the last several years, a phenomenon the

1 Company expects will continue. It will have the effect of keeping Ameren Missouri's  
2 prospective annual cash distributions to Ameren Corporation at relatively modest levels.

3 **V. AMEREN CORPORATION'S CAPITAL STRUCTURE IS**  
4 **INDEPENDENTLY MANAGED AND HAS NOT NEGATIVELY**  
5 **IMPACTED AMEREN MISSOURI'S FINANCIAL AND CREDIT**  
6 **POSITION**

7 **Q. Why does Ameren Missouri's capital structure contain a higher equity**  
8 **ratio than Ameren Corporation's capital structure?**

9 A. As noted previously in my testimony, Ameren Missouri's capital structure is  
10 independently managed, based on consideration of Ameren Missouri-specific business and  
11 financial risks, with the objective to maintain Company financial health and integrity at a  
12 reasonable cost of capital. In addition to Ameren Missouri, Ameren Corporation also owns and  
13 operates other regulated businesses, principally Ameren Illinois and ATXI. Therefore, Ameren  
14 Corporation's consolidated capital structure is meaningfully influenced by the respective capital  
15 structures of each of Ameren Corporation's regulated subsidiaries and their respective funding  
16 approaches. Like Ameren Missouri's capital structure, the capital structure of Ameren  
17 Corporation is managed independently based on the relevant business and financial risks  
18 applicable to the consolidated enterprise, while also supporting the earnings per share ("EPS")  
19 growth and total return objectives of Ameren Corporation's common shareholders. In the case  
20 of Ameren Corporation's capital structure, specific consideration is given to common  
21 shareholder dividend requirements, anticipated cash distributions from operating subsidiaries,  
22 holding company debt obligations, and financial support of Ameren Illinois' and ATXI's capital

1 investment programs, while maintaining targeted credit ratings and strong stock price  
2 performance that supports access to debt and equity capital on attractive terms.

3 **Q. Mr. Murray also suggests that the capital structures of Ameren's other**  
4 **subsidiaries, Ameren Illinois and ATXI, are managed for ratemaking purposes. How do**  
5 **you respond?**

6 A. Though the capital structures of ATXI and Ameren Illinois are not subject to  
7 this Commission's jurisdiction, nor are ATXI's and Ameren Illinois' management of their  
8 respective capital structures a matter for this Commission's scrutiny, I feel compelled to correct  
9 Mr. Murray's erroneous assertions. Similar to Ameren Missouri and Ameren Corporation, both  
10 ATXI's and Ameren Illinois' capital structures are managed independently based on  
11 consideration of their respective business and financial risks and objectives, while considering  
12 distinct regulatory motivations (e.g., the Federal Energy Regulatory Commission ("FERC") has  
13 historically attempted to incent new transmission investment, supporting renewable energy  
14 development and regional electricity grid reliability, through authorization of returns and equity  
15 ratios that are relatively higher than state-regulated utility assets). Importantly, in managing  
16 their capital structures, both ATXI and Ameren Illinois support an appropriate balance between  
17 financial stability and customer affordability while considering discrete business, operational,  
18 regulatory and financial issues specific to the legal entity.

19 Mr. Murray references some of the history in Illinois regarding the regulation of capital  
20 structure in recent electric and gas rate proceedings, and in certain respects, his description does  
21 not exactly align with reality. But, more importantly, Mr. Murray ignores a couple of key  
22 considerations.

1           First, Mr. Murray does not account for some of the salient differences in business  
2 activities and business risks between Ameren Missouri and Ameren Illinois. Namely, that  
3 Ameren Missouri operates a fully-integrated electric utility business, including ownership of  
4 coal-fired and nuclear generation, while Ameren Illinois is principally involved in energy  
5 delivery activities. Energy delivery activities are viewed by the broad financial community  
6 (rating agencies and investors), as well as by Ameren management, as being less risky in nature  
7 than generation activities (particularly coal and nuclear), which, all else being equal, supports a  
8 higher level of financial leverage. For instance, in Moody's Investors Service ("Moody's")  
9 October 12, 2021 credit opinion of Ameren Corporation, the rating agency states:

10           \*\*  
11           \_\_\_\_\_  
12           \_\_\_\_\_  
13           \_\_\_\_\_  
14           \_\_\_\_\_  
15           \_\_\_\_\_\*\*

16           Second, while the passage of the Future Energy Jobs Act ("FEJA") in 2016 codified a  
17 prior agreement with the Illinois Commerce Commission ("ICC") Staff and the Illinois  
18 Industrial Energy Consumers stipulating that an equity ratio up to and including 50% is deemed  
19 reasonable for ratemaking purposes, Ameren Illinois has not been precluded from filing for  
20 capital structure that applies an equity ratio greater than 50% if Ameren Illinois were able to  
21 justify such a capital structure. Thus, in order to preserve that important balance between  
22 financial stability and customer affordability, Ameren Illinois has some flexibility to manage its  
23 capital structure with equity content above 50%, a capability that Ameren Illinois has taken  
24 advantage of recently, as discussed next. And, third, Ameren Illinois recently has received  
25 authorization to increase its equity ratio above that 50% threshold level. For instance, as part of  
26 Ameren Illinois' most recent natural gas rate proceeding (Docket 20-0308), the ICC authorized



1 a 52.0% equity ratio, an increase from the previously-authorized 50.0% (Docket 18-0463). In  
2 its order in Docket 20-0308, the ICC "agree[d] with Ameren Illinois that it needs a stronger  
3 capital structure than the 50% that was approved in the Company's last gas rate case. The ICC  
4 note[d] that Ameren Illinois requires a strong capital structure to maintain its financial strength  
5 and credit ratings to adequately serve Illinois customers."<sup>8</sup> I would also mention that in April  
6 2021, Ameren Illinois filed, as part of its electric distribution formula rate update (Docket 21-  
7 0365), in support of a capital structure with an equity ratio of 53.1%, again justifying a higher  
8 common equity ratio than the range deemed reasonable by the FEJA statute.

9 I would highlight one other important element that is consistent in the regulatory  
10 oversight of ATXI's and Ameren Illinois' capital structure – neither the FERC nor the ICC  
11 employ the use of Ameren Corporation's capital structure for ratemaking purposes.

12 **VI. PASSAGE OF SENATE BILL 564 HAS NOT DIRECTLY IMPACTED**  
13 **THE COMPANY'S CREDIT RATINGS, ITS KEY RATING AGENCY**  
14 **CREDIT METRIC THRESHOLDS, OR ITS RELATIVE COST OF**  
15 **CAPITAL**

16 **Q. Does Ameren Missouri's business risk position factor into the Company's**  
17 **independent management of its capital structure?**

18 A. Ameren Missouri's overall business risk position does influence how the  
19 Company manages its capital structure. For example, the Company may support a change to  
20 its proposed capital structure to the extent any actual or perceived change in its business risk  
21 impacts the Company's financial position, its credit ratings and credit profile, and its cost of  
22 accessing debt and equity capital.

---

<sup>8</sup> ICC Docket 29-0308, Order at 129, January 13, 2021.

1           **Q.     Are there objective ways to determine whether a change in the Company's**  
2 **business risk has impacted the Company's financial position and credit profile?**

3           A.     Perhaps the most transparent way to determine whether a perceived change in  
4 the Company's business risk impacts its financial position and credit profile is to review how  
5 the rating agencies have reacted to the perceived change in business risk. Specifically, have the  
6 rating agencies: (1) changed their ratings of the Company; (2) changed their ratings outlook on  
7 the Company; or (3) changed the Company's downgrade thresholds of key credit metrics? As  
8 a secondary and perhaps less determinate, measure, we can look at the performance of Ameren  
9 Corporation common stock over time as well as the change to the stock's price-to-earnings  
10 ("P/E") ratio, both relative to Ameren Corporation peers, to determine whether the equity  
11 investor universe has disproportionately rewarded Ameren Corporation, and by result, its cost  
12 of equity, for any perceived change in its business risk position.

13           **Q.     How are credit ratings determined?**

14           A.     The two primary credit rating agencies are Moody's and Standard & Poor's  
15 Ratings Services ("S&P"). In assessing a company's ability to meet its financial obligations,  
16 Moody's and S&P generally – but each to varying degrees – consider both qualitative factors  
17 affecting the company's business risk and quantitative factors affecting its financial risk.

18           **Q.     Why do credit ratings matter?**

19           A.     Credit ratings have a significant effect on a company's ability to attract debt  
20 capital, and in extreme cases, whether the company can access debt capital at all. Credit ratings  
21 also impact the pricing and contractual terms at which a company may issue debt securities.  
22 This affects the cost of capital and, in Ameren Missouri's case, the rates customers must pay for

1 utility service. In general, stronger credit ratings typically enable a utility to obtain debt capital  
2 at a lower cost, to the benefit of customers.

3 **Q. How do a company's credit metrics affect its credit ratings?**

4 A. Certain financial metrics factor significantly into the credit rating agencies'  
5 evaluations of a company's credit profile and the rating agencies' assignment of credit ratings.

6 **Q. What credit metrics do the rating agencies rely upon in assignment of**  
7 **credit ratings for regulated electric and gas utilities?**

8 A. The rating agencies evaluate a number of financial credit metrics in order to  
9 determine a regulated utility's financial strength. However, the financial metric that receives the  
10 most weight by both of the rating agencies is a company's funds from operation ("FFO") to debt  
11 ratio<sup>9</sup>. The FFO to debt ratio measures a company's ability to pay its debts using its operating  
12 cash flow alone, with lower ratios signifying a weaker credit position. This metric is of particular  
13 significance because it is perhaps the most common cause of downgraded credit quality for  
14 regulated utilities.

15 **Q. Does Ameren Missouri target credit ratings when it maintains its capital**  
16 **structure?**

17 A. Yes. As previously discussed, access to sufficient capital is critical to Ameren  
18 Missouri's financial health and stability and, in turn, to the service its customers receive and the  
19 rates customers pay for that service. Therefore, in my opinion, Ameren Missouri's issuer credit  
20 ratings should be securely investment grade (at least two notches stronger than Moody's and  
21 S&P's weakest investment grade issuer credit rating) to continue to support the financial

---

<sup>9</sup> S&P specifically evaluates the FFO to debt ratio while Moody's evaluates a similar metric – cash flow from operations pre-working capital to debt ratio. For simplicity, I will refer to each as the FFO to debt ratio.

1 integrity of the utility and ensure its access to necessary capital at a reasonable cost and on  
2 reasonable terms in both strong and weak markets.

3 **Q. What are Ameren Missouri's current issuer credit ratings?**

4 A. Currently, Ameren Missouri's issuer credit ratings at Moody's and S&P are  
5 Baa1 and BBB+, respectively, each two notches stronger than Moody's and S&P's weakest  
6 investment grade issuer credit ratings. Both credit ratings agencies report stable outlooks for  
7 Ameren Missouri credit ratings.

8 **Q. What are Ameren Corporation's current issuer credit ratings?**

9 A. Currently, Ameren Corporation's issuer credit ratings at Moody's and S&P are  
10 Baa1 and BBB+, respectively, the same issuer ratings as Ameren Missouri. Both credit ratings  
11 agencies report stable outlooks for Ameren Corporation's credit ratings.

12 **Q. What are Ameren Missouri's and Ameren Corporation's current FFO to**  
13 **debt ratio downgrade thresholds at Moody's and S&P?**

14 A. In its most recent September 13, 2021 credit opinion on Ameren Missouri,  
15 Moody's indicated that \*\* \_\_\_\_\_  
16 \_\_\_\_\_ \*\*. For Ameren Corporation, Moody's most  
17 recent October 12, 2021, credit opinion cited a downgrade threshold of 17%. Due to its "family"  
18 approach to rating Ameren Corporation and its regulated utilities, including Ameren Missouri,  
19 S&P does not distinguish between the FFO to debt ratio downgrade thresholds at Ameren  
20 Missouri and Ameren Corporation. Rather, S&P only cites the metric downgrade threshold of  
21 Ameren Corporation, which under its "family" approach, would also result in a downgrade of  
22 Ameren Missouri. In its most recent April 30, 2021 credit opinion on Ameren Corporation,  
23 S&P cited an FFO to debt ratio downgrade threshold of 13%.

1           **Q.     Mr. Murray states that, "Ameren Missouri's business risk profile declined**  
2 **after Missouri passed SB 564 ... Ameren Missouri's reduced business risk profile allows**  
3 **for greater debt capacity."**<sup>10</sup> **Do you agree with his assessment?**

4           A.     I believe that SB 564 enhanced Missouri's electric regulatory framework,  
5 providing support for incremental investment in the state. Yet, Mr. Murray alludes to an ability  
6 for the Company to "carry more leverage"<sup>11</sup> and benefit from a "lower cost of capital"<sup>12</sup> resulting  
7 from a reduced business risk position, which are just not supported by the facts.

8           **Q.     Since the passage of SB 564 in May 2018, have either of the rating agencies**  
9 **changed the ratings or ratings outlook of either Ameren Missouri or Ameren**  
10 **Corporation?**

11          A.     No. Neither Moody's nor S&P have taken any action on Ameren Missouri's or  
12 Ameren Corporation's ratings or ratings outlook since the passage of SB 564. In fact, the rating  
13 agencies have taken a relatively balanced (rather than purely constructive) stance in their credit  
14 opinions on Ameren Missouri and Ameren Corporation regarding the PISA framework,  
15 particularly due to the rate cap that is in place.

16          **Q.     What have the rating agencies communicated recently about Ameren**  
17 **Missouri's regulatory framework?**

18          A.     Moody's continues to believe that Ameren Missouri operates within a  
19 supportive legislative and regulatory environment in Missouri following the passage of SB 564.  
20 However, the agency has also reflected its concerns about some of the limiting features of the  
21 framework. In its September 13, 2021, credit opinion, Moody's states:

---

<sup>10</sup> Direct Testimony of David Murray, page 3, ll. 11-12, l. 15.

<sup>11</sup> Direct Testimony of David Murray, page 32, l. 26.

<sup>12</sup> Direct Testimony of David Murray, page 32, l. 28.

1           \*\*  
2           \_\_\_\_\_  
3           \_\_\_\_\_  
4           \_\_\_\_\_  
5           \_\_\_\_\_  
6           \_\_\_\_\_  
7           \_\_\_\_\_  
8           \_\_\_\_\_.\*\*

9           Similarly, S&P, in its April 30, 2021 credit opinion notes:

10          \*\*  
11          \_\_\_\_\_  
12          \_\_\_\_\_  
13          \_\_\_\_\_  
14          \_\_\_\_\_  
15          \_\_\_\_\_  
16          \_\_\_\_\_\*\*

17           While Mr. Murray wants to characterize the rating agency reaction following passage  
18           of SB 564 as being entirely supportive, in practice the rating agencies have taken a more neutral  
19           view of the regulatory mechanism.

20           **Q.     Since the passage of SB 564 in May 2018, have the rating agencies changed**  
21           **the FFO to debt ratio downgrade thresholds of Ameren Missouri or Ameren**  
22           **Corporation?**

23           A.     Since the passage of SB 564, S&P has taken no action to change the FFO to  
24           debt downgrade threshold of Ameren Corporation (and by extension under its family ratings  
25           approach, Ameren Missouri) of 13%. Similarly, Moody's has not changed its FFO to debt ratio  
26           downgrade threshold for Ameren Missouri of 19%. This suggests that, in spite of any perceived  
27           reduced business risk, Ameren Missouri cannot incur incremental debt to fund its operations  
28           without having negative implications on its credit ratings and its cost of capital.

29           However, and as indicated by Mr. Murray, in its March 29, 2019 credit opinion,  
30           Moody's did reduce the FFO to debt ratio downgrade threshold for Ameren Corporation from

1 19% to 17%. While Moody's did not cite the specific factors that led to a modest relaxation of  
2 this credit metric, I believe (counter to Mr. Murray's implication that it was due solely to  
3 improvements in Missouri's regulatory environment) it was based in part on the improvements  
4 to the Missouri regulatory framework and in part due to a strong track record of strategy  
5 execution within the supportive regulatory frameworks of Ameren Corporation's subsidiaries,  
6 Ameren Illinois and ATXI. \*\* \_\_\_\_\_

7 \_\_\_\_\_  
8 \_\_\_\_\_  
9 \_\_\_\_\_

10 \_\_\_\_\_.\*\* Yet, in his entire line of argument, Mr. Murray ignores the fact that the  
11 reduction of Ameren Corporation's metric downgrade threshold at Moody's has limited practical  
12 implications on Ameren Missouri's access to debt capital or its cost of capital, since Ameren  
13 Missouri issues its own debt (with Ameren Missouri debt investors looking exclusively at  
14 Ameren Missouri's credit profile). Also, as previously indicated, it does not rely upon Ameren  
15 Corporation for balance sheet support of the Company's financial obligations. To clarify, the  
16 reduction of Ameren Corporation's FFO to debt ratio downgrade threshold at Moody's improves  
17 Ameren Corporation's financing flexibility, permitting more financial leverage within the  
18 current rating category, but it does not directly impact Ameren Missouri financing flexibility,  
19 since the Company's metric downgrade threshold was not changed.

20 **Q. How would you define Ameren Missouri's debt capacity?**

21 A. I would characterize Ameren Missouri's debt capacity as the maximum amount  
22 of debt that the Company could theoretically carry without adversely impacting its current credit  
23 ratings. I believe the most objective approach to identifying Ameren Missouri's debt capacity

1 is imputing the level of debt at which the Company equals its FFO to debt downgrade threshold  
2 at each of Moody's and S&P.

3 **Q. What was Ameren's Missouri's 2020 FFO to debt ratio as calculated by**  
4 **Moody's?**

5 A. In Moody's September 13, 2021 credit opinion of Ameren Missouri, Moody's  
6 cites a 2020 FFO to debt ratio of 18.9%.

7 **Q. Based on Ameren Missouri's 2020 FFO to debt ratio as calculated by**  
8 **Moody's, does the Company have additional debt capacity?**

9 A. By virtue of the fact that Ameren Missouri's 2020 FFO to debt ratio of 18.9%  
10 was below Moody's downgrade threshold of 19%, I could argue that the Company has no  
11 additional debt capacity without facing significant risk of a ratings downgrade at Moody's. That  
12 said, Moody's does believe, as indicated in its September 13, 2021 credit opinion and based on  
13 financial guidance from the Company that assumes retention of current capitalization ratios, that  
14 Ameren Missouri will **\*\*\*** \_\_\_\_\_  
15 \_\_\_\_\_ **\*\*\*** Ameren Missouri believes it is financially prudent to maintain some degree  
16 of financial cushion above its FFO to debt ratio downgrade threshold so as to be able to  
17 withstand any unanticipated negative impact to its financial performance without risk of an  
18 immediate negative reaction by Moody's. Therefore, Ameren Missouri would not be a  
19 proponent of maintaining its capital structure at its maximum calculated debt capacity. Just as  
20 it may be true that an individual family could "afford" to borrow more money to buy a bigger  
21 home if certain common metrics exist (e.g., the percentage of housing costs to overall income),  
22 it does not mean that borrowing the absolute highest amount of money the metric suggests is  
23 possible is a sound financial decision.



1           **Q. Do you believe that Mr. Murray's proposed capital structure, which**  
2 **includes 54.18% long-term debt, falls within your definition of Ameren Missouri's debt**  
3 **capacity?**

4           A. No, the capital structure proposed by Mr. Murray contains an excessive amount  
5 of debt and would place the Company at significant risk of a credit ratings downgrade,  
6 particularly at Moody's. As illustration, we have calculated what Ameren Missouri's FFO to  
7 debt ratio in 2020 would have been had the Company (including both its electric and natural gas  
8 businesses) utilized Mr. Murray's proposed capital structure, including 54.18% long-term debt.

9 \*\*  
\_\_\_\_\_

10 \_\_\_\_\_, <sup>13</sup>  
\_\_\_\_\_

11 \_\_\_\_\_\*\* This financial weakening, along with potential rating  
12 agency concerns about the supportiveness of the regulatory environment should the  
13 Commission apply a hypothetical capital structure for ratemaking purposes (which I will discuss  
14 later), would put the Company at meaningful risk of credit rating downgrades.

15           **Q. Mr. Murray suggests that because Ameren Missouri's business risk has**  
16 **declined, it is afforded a lower debt cost of capital that should be passed on to customers**  
17 **in the form of a lower authorized common equity ratio. Do you agree?**

18           A. Mr. Murray offers no supporting evidence that Ameren Missouri's debt cost of  
19 capital has declined since the passage of SB 564. While Ameren Missouri's cost of capital has  
20 arguably declined in recent years, this phenomenon has been due predominantly to a decline in  
21 both U.S. Treasury rates and the spread to U.S. Treasury rates that dictates the cost of newly  
22 issued debt. Such reduction in the cost of capital has already been shared with the Company's

\_\_\_\_\_  
<sup>13</sup> Assumes similar capital structure treatment across both electric and gas utility rate base.

1 customers as the Company has issued long-term debt in recent years. However, in no way can  
2 we directly trace any incremental reduction in the debt cost of capital to the passage of SB 564  
3 and any perception of reduced business risk. As stated above, there has been no change to  
4 Ameren Missouri's credit ratings and credit outlooks since May 2018. Therefore, there is no  
5 objective basis to suggest that Ameren Missouri's debt cost of capital has been reduced as a  
6 result of the passage of SB 564.

7 **Q. Are there any other material factors that have influenced Ameren**  
8 **Missouri's credit quality over the past several years since the passage of SB 564?**

9 A. Yes. I would specifically point to the negative credit quality implications of the  
10 change in the federal corporate tax rate in the Tax Cuts and Jobs Act ("TCJA") that became  
11 effective on January 1, 2018. The TCJA brought significant benefits to Ameren Missouri's  
12 customers in the form of reductions in current taxes and excess deferred taxes that they received  
13 and are continuing to receive through new base rates established in the Company's subsequent  
14 ratemaking proceedings. However, realization of these benefits by customers carries with it  
15 certain potentially significant adverse financial impacts to Ameren Missouri. Because of the  
16 change in the federal corporate tax rate, Ameren Missouri collects a lower amount of tax from  
17 its customers, resulting in reduced cash flows and, consequently, a lower prospective FFO to  
18 debt ratio. The TCJA also excluded public utility property from bonus depreciation eligibility,  
19 which further reduced cash flow contributions from deferred taxes. On June 18, 2018, Moody's  
20 cited the change in the federal tax rate, loss of bonus depreciation, and the resulting increase in  
21 financial risk for utilities as the driver for changing its outlook on the U.S. regulated electric and  
22 gas utility sector from "stable" to "negative." This was the first time Moody's had given the  
23 regulated public utility sector a "negative" outlook in its history of issuing sector outlooks, which

1 underscores how serious this issue could become if not addressed by constructive, proactive  
2 regulation. The Moody's report specifically identifies the issuance of credit-supportive rate  
3 orders as an offset to this reduced cash flow issue. While Moody's did subsequently change its  
4 outlook for the utility industry back to "stable" from "negative" on November 9, 2019, it did so  
5 as a result of the implementation of more proactive regulatory and financial actions to address  
6 sector cash flows following passage of the TCJA, with such regulatory actions including  
7 increased authorized equity layers. In this proceeding, approving Ameren Missouri's 51.93%  
8 equity ratio (projected as of September 30, 2021) can help ensure that the Company supports an  
9 FFO to debt ratio above downgrade threshold levels identified by the rating agencies, allowing  
10 Ameren Missouri to maintain its current strong credit ratings.

11 **Q. Mr. Murray stated that, as result of the passage of SB 564, equity investors**  
12 **view Ameren Corporation as a "premium utility."<sup>14</sup> How do you respond?**

13 A. Mr. Murray is apparently attempting to correlate Ameren Corporation's stock  
14 price trading levels relative to corporate peers to its underlying equity cost of capital. Yet Mr.  
15 Murray does not provide any compelling evidence to support his assertion that Ameren  
16 Corporation stock performance, and by implication, Ameren Missouri's equity cost of capital,  
17 has been meaningfully impacted by the lower business risk environment in Missouri following  
18 passage of SB 564.

19 In Schedule DTS-R1, I compare Ameren Corporation's stock price performance versus  
20 a group of identified corporate peers from May 31, 2018 (the day before SB 564 was signed  
21 into law) to September 30, 2021. Over the designated period of time, Ameren Corporation's  
22 stock price did outperform the peer group average by 18.4%. I would not necessarily

---

<sup>14</sup> File No. ER-2021-0240, Direct Testimony of David Murray, page 34, l. 13.

1 characterize such outperformance over a 40-month timeframe as statistically significant as  
2 compared to the regulated utility market performance and would further highlight that Ameren  
3 Corporation's outperformance really has occurred since the spring of 2020, well after the point  
4 at which SB 564 was passed and presumably factored into Ameren Corporation's stock price.  
5 This suggests that factors other than the PISA framework have contributed to the stock price  
6 outperformance over the identified period.

7 In Schedule DTS-R2, I compare Ameren Corporation's forward year P/E multiple  
8 versus the same corporate peer group from May 31, 2018 to September 30, 2021. While Ameren  
9 Corporation's common stock has recently traded at a next-12-months ("NTM") P/E multiple  
10 premium to the median of the identified peer regulated companies (20.4x vs. 16.9x as of  
11 September 30, 2021), it also happened to trade at a NTM P/E multiple premium at the time of  
12 (19.0x for Ameren Corporation versus 17.9x for peers as of May 31, 2018), and in the months  
13 prior to passage of SB 564. Similar to its stock price performance, Ameren Corporation's NTM  
14 P/E multiple notably expanded versus the peer group since the spring of 2020, well after the  
15 passage of SB 564. Therefore, it is not reasonable to suggest that investors are placing a  
16 premium on Ameren Corporation's common stock due specifically to the passage of SB 564  
17 and its impact on business risk.

18 **Q. In summary, do you believe that the lower business risk environment in**  
19 **Missouri following passage of SB 564 supports reducing Ameren Missouri's regulatory**  
20 **common equity ratio below its actual equity ratio?**

21 A. No. The change in Ameren Missouri's business risk following passage of SB  
22 564 has had no demonstrable positive impact on the Company's financial position, its credit  
23 profile and its access to, and cost of, debt and equity capital. As a result, a reduction of Ameren

1 Missouri's regulatory equity ratio below its actual level is certainly not justified on this basis. In  
2 addition, any action to reduce Ameren Missouri's common equity ratio in this proceeding, in  
3 combination with the recent degradation of credit metrics due to the customer rate reductions  
4 culminating from the TCJA, would serve to significantly reduce Ameren Missouri's credit  
5 quality, potentially negatively impacting its credit ratings and increasing the cost of serving  
6 Missouri customers. I discuss this concept further in the next section of my testimony.

7 **Q. Mr. Murray questions Ameren Missouri's approach to issuing long-term**  
8 **debt, suggesting that the Company's issuance strategy prevents its customers from**  
9 **realizing a lower cost of debt capital. How do you respond?**

10 A. First, I would note that prior to every long-term debt issuance, the Company is  
11 required to seek financing approval by the Commission, a process that is public and considers  
12 many factors, including the structure of the security and its resulting cost to customers. Next,  
13 Mr. Murray suggests that if Ameren Missouri had issued shorter-term debt tenors, Ameren  
14 Missouri's cost of debt would be lower. While this may be true in the short term, issuing shorter-  
15 dated debt securities exposes the Company to longer-term interest rate and market risk and  
16 results in more frequent (and therefore higher) issuance fees. Thus, Mr. Murray cannot reliably  
17 demonstrate that the Company's customers would be better off over time since he has no  
18 foreknowledge of interest rate markets or broader corporate debt markets over the next 10 to 30  
19 years. Ameren Missouri is extremely thoughtful in its approach to issuing debt securities,  
20 considering the current and prospective interest rate environment, its debt maturity schedule and  
21 fixed income investor receptivity/preferred tenors. For instance, in the low interest rate  
22 environment which the U.S. has experienced in recent years, Ameren Missouri has tended to  
23 issue debt with longer tenors in an attempt to lock in attractive financing coupons for a lengthy

1 period of time. On balance, the Company believes that its customers benefit from having this  
2 long-term rate certainty. In addition, the Company (and Ameren Corporation more broadly) is  
3 mindful of its debt maturity schedule, and has implemented measures to ensure that it is not  
4 burdened with significant refinancing risk in any given year.

5 **VII. THE USE OF A PARENT COMPANY OR HYPOTHETICAL**  
6 **CAPITAL STRUCTURE FOR AMEREN MISSOURI IN THIS**  
7 **PROCEEDING IS NOT JUSTIFIED**

8 **Q. Mr. Murray proposes using a parent company/hypothetical capital**  
9 **structure with common equity ratios that are lower than Ameren Missouri's actual**  
10 **common equity ratio. Is using a parent company/hypothetical capital structure in this**  
11 **proceeding appropriate?**

12 A. No.

13 **Q. Are there ever situations when it would be appropriate to use a parent**  
14 **company/hypothetical capital structure to set rates for a regulated subsidiary?**

15 A. There may be situations under which it would be more appropriate to use a  
16 parent/hypothetical capital structure, but this case is not one of those situations.

17 **Q. What factors should typically be considered when determining whether**  
18 **to use a regulated subsidiary's or parent company/hypothetical capital structure for**  
19 **ratemaking purposes for the regulated subsidiary?**

20 A. The factors typically considered in determining whether the use of a  
21 regulated subsidiary's actual capital structure or a parent company's capital structure for  
22 ratemaking are provided by David C. Parcell in The Cost of Capital – A Practitioner's  
23 Guide ("CRRRA Guide") prepared for the Society of Utility and Regulatory Financial

1 Analysts ("SURFA") and provided as the study guide to candidates for SURFA's Certified  
2 Rate of Return Certification Examination. The CRRA Guide notes that these factors will  
3 "help determine whether the utility vs. parent capital structure is appropriate."<sup>15</sup> They are:

- 4 1) Whether the subsidiary utility obtains all of its capital from its parent, or  
5 issues its own debt and preferred stock;
- 6 2) Whether the parent guarantees any of the securities issued by the subsidiary;
- 7 3) Whether the subsidiary's capital structure is independent of its parent (i.e.,  
8 existence of double leverage, absence of proper relationship between risk  
9 and leverage of utility and non-utility subsidiaries); and
- 10 4) Whether the parent (or consolidated enterprise) is diversified into non-  
11 utility operations.

12 Mr. Murray specifically recommends using Ameren Corporation's approximate  
13 capital structure for purposes of this proceeding. Consequently, I believe that the CRRA  
14 Guide factors are relevant for consideration of Mr. Murray's recommendations.

15 **Q. Does the application of these factors to Ameren Missouri support the**  
16 **use of Ameren Missouri's actual capital structure for ratemaking purposes?**

17 A. Yes. Application of the factors highlighted in the CRRA Guide listed above  
18 to Ameren Missouri supports the use of Ameren Missouri's actual capital structure for  
19 ratemaking purposes. As previously discussed, Ameren Missouri does not obtain any long-  
20 term debt or preferred stock from Ameren Corporation, but rather issues its own long-term  
21 debt and preferred stock to outside investors. In addition, Ameren Missouri's long-term  
22 debt is secured by its own assets and not the assets of Ameren Corporation. Ameren

---

<sup>15</sup> David C. Parcell, The Cost of Capital – A Practitioner's Guide. Prepared for the Society of Utility and  
Regulatory Financial Analysts, 2010 Edition.

1 Missouri and its issued debt securities and preferred stock securities have separate and  
2 distinct credit ratings from Ameren Corporation, as provided by both Moody's and S&P.  
3 Double leverage cannot be said to exist since no proceeds of Ameren Corporation long-  
4 term debt issuances have been used as an equity infusion into Ameren Missouri. Finally,  
5 Ameren Corporation is not meaningfully diversified into non-utility operations.

6 In view of the foregoing, Ameren Missouri has an independently determined capital  
7 structure. Therefore, the only conclusion to be drawn is that Ameren Missouri's stand-  
8 alone capital structure is appropriate for ratemaking purposes.

9 **VIII. AMEREN MISSOURI'S PROPOSED COMMON EQUITY RATIO IS**  
10 **CONSISTENT WITH UTILITY PEERS AND SUPPORTS STRONG**  
11 **AND STABLE CREDIT RATINGS**

12 **Q. How does Ameren Missouri's common equity ratio of 51.93%,**  
13 **projected as of September 30, 2021, compare to the common equity ratios recently**  
14 **authorized by comparable utilities?**

15 A. Ameren Missouri has gathered information on fully integrated electric  
16 utility companies' authorized common equity ratios effective between 2014 and 2021 year-  
17 to-date. Ameren Missouri's projected September 30, 2021 common equity ratio is  
18 consistent with those authorized, on balance, by the regulated fully integrated electric  
19 operating subsidiaries of publicly-traded utilities in that identified peer group. As  
20 highlighted in Schedule DTS-R3, the median authorized effective common equity ratio<sup>16</sup>

---

<sup>16</sup> The authorized effective common equity ratio is the authorized regulatory common equity ratio in place for an operating utility for a particular year, even if the underlying party did not have a rate proceeding outcome in that year. For instance, if a peer utility was authorized a 50.0% equity ratio in 2014 and later authorized a 52.0% equity ratio in 2017, our analysis assumes that utility has an equity ratio of 50.0% in 2015 and 2016.



1 for the Company's identified peer set in 2020 was 51.62%, within a range between 40.25%  
2 and 55.80%. Expanding the data set to include 2019-2021 year-to-date provides similar  
3 results, as does the data dating back to 2014. The Company believes that the median  
4 authorized effective common equity ratio, rather than the mean (50.63% in 2020), is the  
5 appropriate comparison measure because the median has the effect of muting certain  
6 proceedings (e.g., in Kentucky, Tennessee and Texas) in which authorized equity ratios  
7 were aberrantly low. Ameren Missouri's common equity ratio of 51.93% projected as of  
8 September 30, 2021, is just above the median (51.62%) derived by the data set.

9 **Q. Does this consistency support the reasonableness of Ameren Missouri's**  
10 **proposed capital structure for purposes of setting rates in this proceeding?**

11 A. Yes. I'd call specific attention to a citation from Charles Phillip's The  
12 Regulation of Public Utilities – Theory and Practice,<sup>17</sup> which suggests "a hypothetical  
13 capital structure is used only where a utility's actual capitalization is clearly out of line with  
14 those of other utilities in its industry or where a utility is diversified." Ameren Missouri  
15 meets neither of these criteria: the Company's capital structure is in line with those of its  
16 peers and the Company (as well as its parent company, Ameren Corporation) is not  
17 meaningfully diversified into non-regulated activities or businesses.

18 **Q. Mr. Murray highlights the fact that Ameren Corporation has incurred**  
19 **additional parent company debt over the past several years resulting in an increase of**  
20 **Ameren Corporation parent debt as a proportion of consolidated debt. For what purposes**  
21 **were the proceeds of recent Ameren Corporation parent debt issuances used?**

---

<sup>17</sup> Charles F. Phillips, Jr., The Regulation of Public Utilities – Theory and Practice, 1993, Public Utility Reports, Inc., Arlington VA, at 391.

1           A.     Proceeds from recent parent company debt issuance were used for a number of  
2 purposes, including:

- 3           •     Paying dividends to its common shareholders over the past several years at  
4 levels that are well in excess of dividend distributions received from regulated  
5 subsidiaries, including Ameren Missouri. This is a function of the regulated  
6 subsidiaries reinvesting significant operating cash flow and retained earnings  
7 into their long-term regulated assets. The result of this under-collection by  
8 Ameren Corporation has caused Ameren Corporation's retained earnings (and  
9 by extension, its common equity ratio), after paying dividends to common  
10 shareholders, to be disproportionately impacted relative to its regulated  
11 subsidiaries' retained earnings.
- 12          •     Paying increasing amounts of debt service on Ameren parent long-term debt.
- 13          •     Ameren Corporation funding increasing investment to support ATXI equity  
14 needs and, to a lesser degree, Ameren Illinois equity needs.

15           I would note here, as I did previously, that no proceeds from the issuance of Ameren  
16 Corporation parent long-term debt were used to infuse capital into Ameren Missouri.

17           **Q.     Earlier, you discussed Ameren Missouri's debt capacity. Do you believe**  
18 **that Ameren Corporation's debt capacity has increased in recent years?**

19           A.     Previously, I suggested a concept that the debt capacity is the maximum amount  
20 of debt that a business could carry without adversely impacting its current credit ratings, with  
21 an objective approach to identifying the debt capacity as being the level of debt at which the  
22 company equals its FFO to debt ratio downgrade threshold at each of Moody's and S&P. With  
23 this concept in mind, I would suggest Ameren Corporation's debt capacity did increase in early

1 2019 when Moody's (in its March 29, 2019 credit opinion) reduced the FFO to debt ratio  
2 downgrade threshold of Ameren Corporation from 19% to 17%.<sup>18</sup> This change has given  
3 Ameren Corporation more flexibility to take on additional leverage without negatively  
4 impacting its credit rating at Moody's.

5 **Q Has the implied increase in debt capacity at Ameren Corporation impacted**  
6 **Ameren Missouri's debt capacity?**

7 A. No. As previously referenced, Ameren Missouri's FFO to debt downgrade  
8 threshold has remained at 19% for quite some time, so the additional financial flexibility  
9 afforded to Ameren Corporation by virtue of its lower FFO to debt ratio downgrade threshold  
10 at Moody's as of March 2019 does not translate into additional financial flexibility for Ameren  
11 Missouri.

12 **Q Has Ameren Missouri's financial health or access to debt and equity capital**  
13 **been adversely impacted by Ameren Corporation's recent incurrence of parent long-term**  
14 **debt?**

15 A. No. Ameren Missouri's financial health, as evidenced by its credit ratings, which  
16 have been maintained at strong levels in recent years, provides timely access to both debt and  
17 equity capital at reasonable costs.

18 **Q. Are you aware of any evidence in rating agency reports suggesting that**  
19 **Ameren Corporation's unrelated financing activities has any negative impact on Ameren**  
20 **Missouri's credit ratings?**

21 A. No. Neither Moody's nor S&P have expressed any concerns about the impact  
22 of Ameren Corporation financing activities on Ameren Missouri's credit profile. Specifically,

---

<sup>18</sup> S&P's FFO to debt ratio downgrade threshold is at a lower 13% level, so Ameren Corporation's debt capacity did not increase with respect to the S&P credit rating when Moody's took its action in March 2019.

1 neither Moody's nor S&P's most recent credit opinions on Ameren Missouri (September 13,  
2 2021 and April 30, 2021) make any mention of Ameren Corporation's holding company  
3 leverage. However, in its October 12, 2021 credit opinion on Ameren Corporation, Moody's  
4 highlighted that \*\* \_\_\_\_\_ \*\*

5 **Q. Is Ameren Corporation's parent debt as a percentage of consolidated debt**  
6 **out of line with identified peer holding companies?**

7 A. Per the Table 1 below, Ameren Corporation's parent debt as a percentage of  
8 consolidated debt, based on December 31, 2020 reported figures, actually is in line with, even  
9 slightly below, the adjusted mean and median of the identified peer group. Notably, only three  
10 out of the twelve utilities within the peer group had lower holding company leverage than  
11 Ameren at that time

12 **Table 1**

	<b>Holding Company Debt as a % of Consolidated Debt<sup>1</sup></b>
Alliant Energy	19.6%
American Electric Power	24.2%
Duke Energy	27.1%
Entergy	21.5%
Evergy	23.6%
NextEra	50.7%
Northwestern	100.0%
OGE	2.3%
Otter Tail	17.2%
Pinnacle West	10.3%
Portland General	100.0%
Xcel	21.1%
<b>Ameren</b>	<b>18.0%</b>
<b>Peer Mean<sup>2</sup></b>	<b>18.5%</b>
<b>Peer Median<sup>2</sup></b>	<b>21.1%</b>

<sup>1</sup>Data as of December 31, 2020. Debt includes short-term debt.  
<sup>2</sup>Mean and median excludes NextEra, since unregulated operations are financed at the holding company, as well as Northwestern and Portland General, who fund all operations at the holding company.

13

1 I would also mention that in Moody's October 12, 2021 credit opinion, the rating agency  
2 states that \*\* \_\_\_\_\_  
3 \_\_\_\_\_  
4 \_\_\_\_\_ \*\*

5 **Q. What would be the consequence to Ameren Missouri's credit profile and**  
6 **credit ratings of approving common equity content that is consistent with Ameren**  
7 **Corporation's consolidated equity ratio for ratemaking purposes and below Ameren**  
8 **Missouri's actual equity ratio, as suggested by Mr. Murray?**

9 A. Applying a common equity ratio that is consistent with Ameren  
10 Corporation's consolidated common equity ratio to establish rates in this proceeding would  
11 significantly weaken Ameren Missouri's credit metrics, including key metrics evaluated by  
12 the rating agencies for purposes of assigning credit ratings. While it is difficult to predict  
13 the ultimate impact of weaker credit metrics on the Company's credit ratings, as such  
14 ratings are a function of a number of qualitative and quantitative factors, it is without a  
15 doubt that weaker credit metrics would contribute to increased financial risk and higher  
16 likelihood of a ratings downgrade. Additionally, rejection by the Commission of Ameren  
17 Missouri's actual capital structure, absent compelling evidence that the actual capital  
18 structure is inappropriate or unreasonable, could deepen rating agency concerns regarding  
19 the supportiveness of the Missouri regulatory environment, which would pressure Ameren  
20 Missouri's credit ratings. To the extent that Ameren Missouri's credit ratings were  
21 downgraded, Ameren Missouri's access to required debt capital to finance its operations  
22 could become more challenging and likely more expensive, which would be harmful to  
23 Ameren Missouri customers.

1           **Q.     What would be the impact on Ameren Missouri's FFO to debt ratio at**  
2 **Moody's if Mr. Murray's recommended equity ratio of 45% were adopted?**

3           A.     Mr. Murray claims that Ameren Missouri's capital structure does not reflect  
4 its true debt capacity. Yet, as previously discussed, Ameren Missouri's FFO to debt ratios  
5 have trended down in recent years, diminishing its credit quality and curtailing incremental  
6 debt capacity at its current credit ratings. For instance, Moody's has calculated Ameren  
7 Missouri's 2020 FFO to debt ratio at 18.9%, which places the Company's performance  
8 below its established 19% downgrade threshold for that metric last year. \*\* \_\_\_\_\_

9 \_\_\_\_\_  
10 \_\_\_\_\_  
11 \_\_\_\_\_  
12 \_\_\_\_\_  
13 \_\_\_\_\_  
14 \_\_\_\_\_  
15 \_\_\_\_\_  
16 \_\_\_\_\_  
17 \_\_\_\_\_  
18 \_\_\_\_\_  
19 \_\_\_\_\_  
20 \_\_\_\_\_  
21 \_\_\_\_\_  
22 \_\_\_\_\_  
23 \_\_\_\_\_

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22

\*\*

Consequently, I have serious concerns that using the parent company equity ratio proposed by Mr. Murray, with or without an associated reduction in the allowed ROE, would place Ameren Missouri at significant risk of a rating downgrade at Moody's.

**Q. Do you have any evidence that the rating agencies would view Commission acceptance and approval of a capital structure consistent with the parent company for ratemaking purposes as a credit negative outcome?**

A. Yes. I would specifically highlight a credit opinion written by Moody's on February 5, 2018, shortly after the Commission conducted an initial discussion in the Laclede Gas and Missouri Gas Energy (collectively, "Spire Missouri") rate proceedings (File Nos. GR-2017-0215 and GR-2017-0216) suggesting that parent company Spire Inc.'s ("Spire") equity ratio should be used for ratemaking purposes rather than the actual equity ratio of Spire Missouri. In the report, Moody's stated that the Commission's use of Spire's capital structure in the rate cases would be \*\*\*

\*\*\*

Moody's further added that \*\*\*

<sup>19</sup> Assumes similar capital structure treatment across both electric and gas utility rate base.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23

---

---

---

\*\*\*

Furthermore, following the February 21, 2018 order in the Spire Missouri rate cases, in which the Commission ultimately approved the use of Spire Missouri's actual capital structure rather than Spire's (the parent's) capital structure, Moody's, in a March 1, 2018 credit opinion, stated that \*\*\*

---

---

\*\*\*

Moody's negative reaction to both the initial discussion and the positive reaction to the final Commission order in Spire Missouri's rate cases demonstrates that the rating agencies would likely view Commission approval of a hypothetical equity ratio below Ameren Missouri's actual equity ratio as a credit negative outcome.

**Q. What would be the consequence on Ameren Corporation's stock price and inherent cost of equity of using an equity ratio consistent with Ameren Corporation's consolidated equity ratio for ratemaking purposes that is below Ameren Missouri's actual equity ratio, as suggested by Mr. Murray?**

A. Using the approximate parent company common equity ratio that is below Ameren Missouri's actual common equity ratio to establish rates in this proceeding would likely place pressure on Ameren Corporation's share price. A lower relative share price makes it more challenging and expensive for Ameren Corporation to deploy equity capital



1 to fund operations at Ameren Missouri, with such higher cost of equity capital ultimately  
2 passed along to Ameren Missouri customers in the form of higher rates.

3 **Q. Do you have any evidence that Ameren Corporation's stock price**  
4 **would face pressure if the Commission approved the targeted parent company equity**  
5 **ratio below Ameren Missouri's actual equity ratio?**

6 A. Yes. On January 31, 2018, the date that the Commission initially discussed  
7 the Spire Missouri rate cases suggesting that parent company Spire's equity ratio should be  
8 used for ratemaking purposes rather than the actual equity ratios of Spire Missouri, Spire's  
9 share price declined 3.3% as compared to a 1.0% increase in the PHLX Utility Sector Index  
10 (the "UTY"). On the following day, February 1, 2018, Spire's stock price declined an  
11 additional 5.0% as compared to a 1.6% decline in the UTY.

12 The stock price decline during that period was in part a response to commentary  
13 published by several prominent Wall Street equity analysts that was negative in tone. For  
14 instance, Wells Fargo analysts Sarah Akers and Neil Kalton stated in a report published on  
15 February 1, 2018, that \*\*\* \_\_\_\_\_

16 \_\_\_\_\_  
17 \_\_\_\_\_

18 \_\_\_\_\_ \*\*\* Another equity analyst from Guggenheim Securities, Shahriar  
19 Pourreza, wrote on February 1, 2018, that the \*\*\* \_\_\_\_\_

20 \_\_\_\_\_  
21 \_\_\_\_\_

22 \_\_\_\_\_  
23 \_\_\_\_\_ \*\*\*

1           The negative share price reaction to the initial Commission discussion in Spire  
2 Missouri's rate cases demonstrates that Ameren Corporation's stock price could face similar  
3 pressure if the Commission approves the parent company equity ratio below Ameren  
4 Missouri's actual equity ratio. The effect of a lower relative share price is a more  
5 challenging and expensive outlook for Ameren Corporation to deploy equity capital to fund  
6 operations at Ameren Missouri.

7           **Q. In recommending that the Commission utilize the parent company**  
8 **capital structure for ratemaking purposes, Mr. Murray alludes to Ameren Missouri's**  
9 **"commitment to investing significant amounts of capital" and posits that his**  
10 **recommended hypothetical capital structure is a more efficient capital structure for**  
11 **Ameren Missouri. How does Mr. Murray's position line up with your discussion**  
12 **regarding potential negative credit ratings and stock price consequences in the event**  
13 **the Commission approved an equity ratio below Ameren Missouri's actual equity**  
14 **ratio?**

15           A. Mr. Murray ignores the fact that arbitrarily utilizing the parent company  
16 capital structure, and the potential for negative rating agency reactions and stock price  
17 pressure, could actually result in an increase to the Company's cost of capital, and by  
18 consequence, higher customer rates. Furthermore, taking such action to arbitrarily alter the  
19 Company's capital structure as it executes a significant capital expenditure program, creates  
20 risk around the financing costs of the capital program to enhance customer service and  
21 reliability, with Ameren Missouri's customers ultimately bearing those risks.

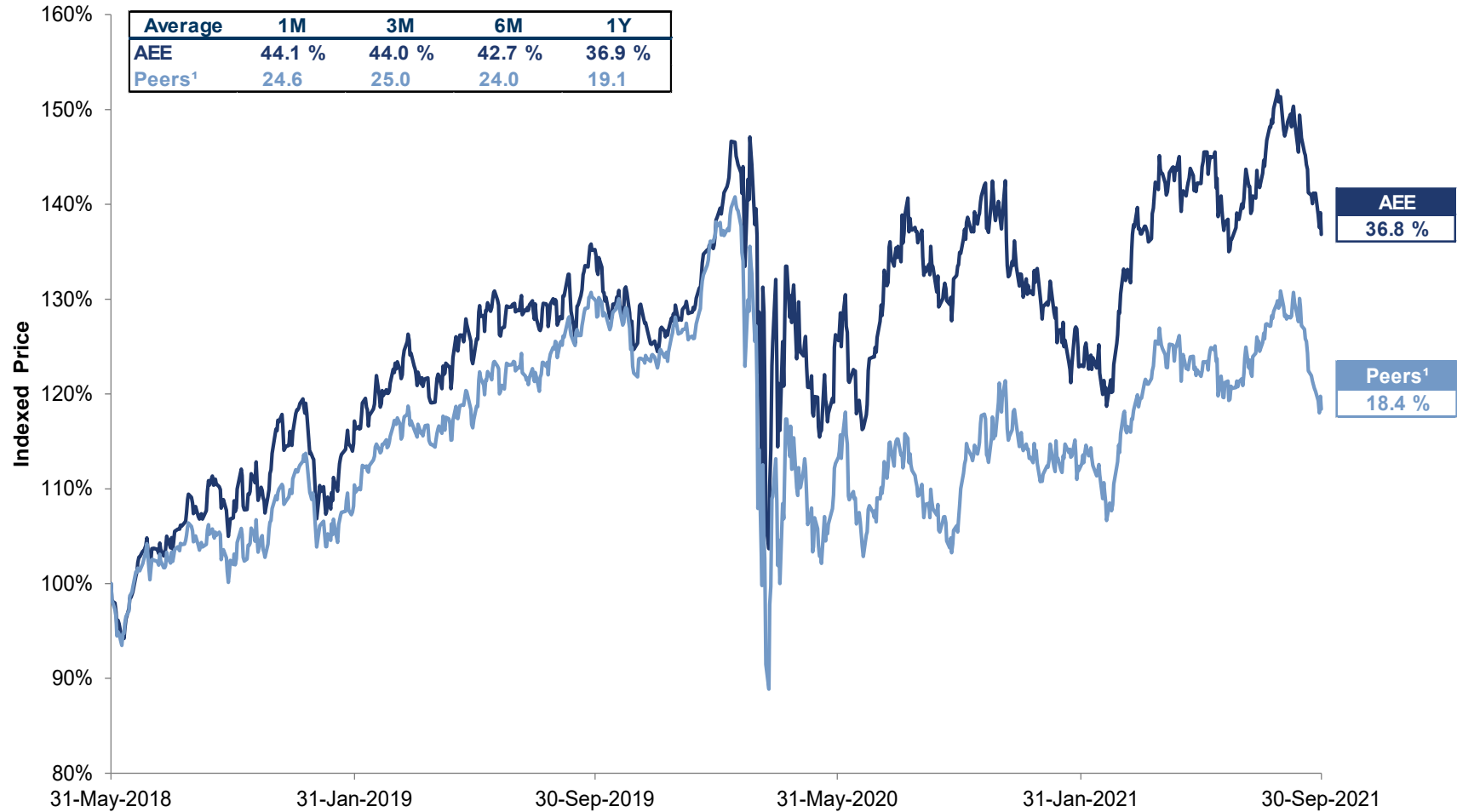
22           **Q. Does this conclude your rebuttal testimony?**

23           A. Yes, it does.

# Ameren Corp. Stock Price Performance Vs. Electric Utility Peers

May 31, 2018 to September 30, 2021

DTS-R1



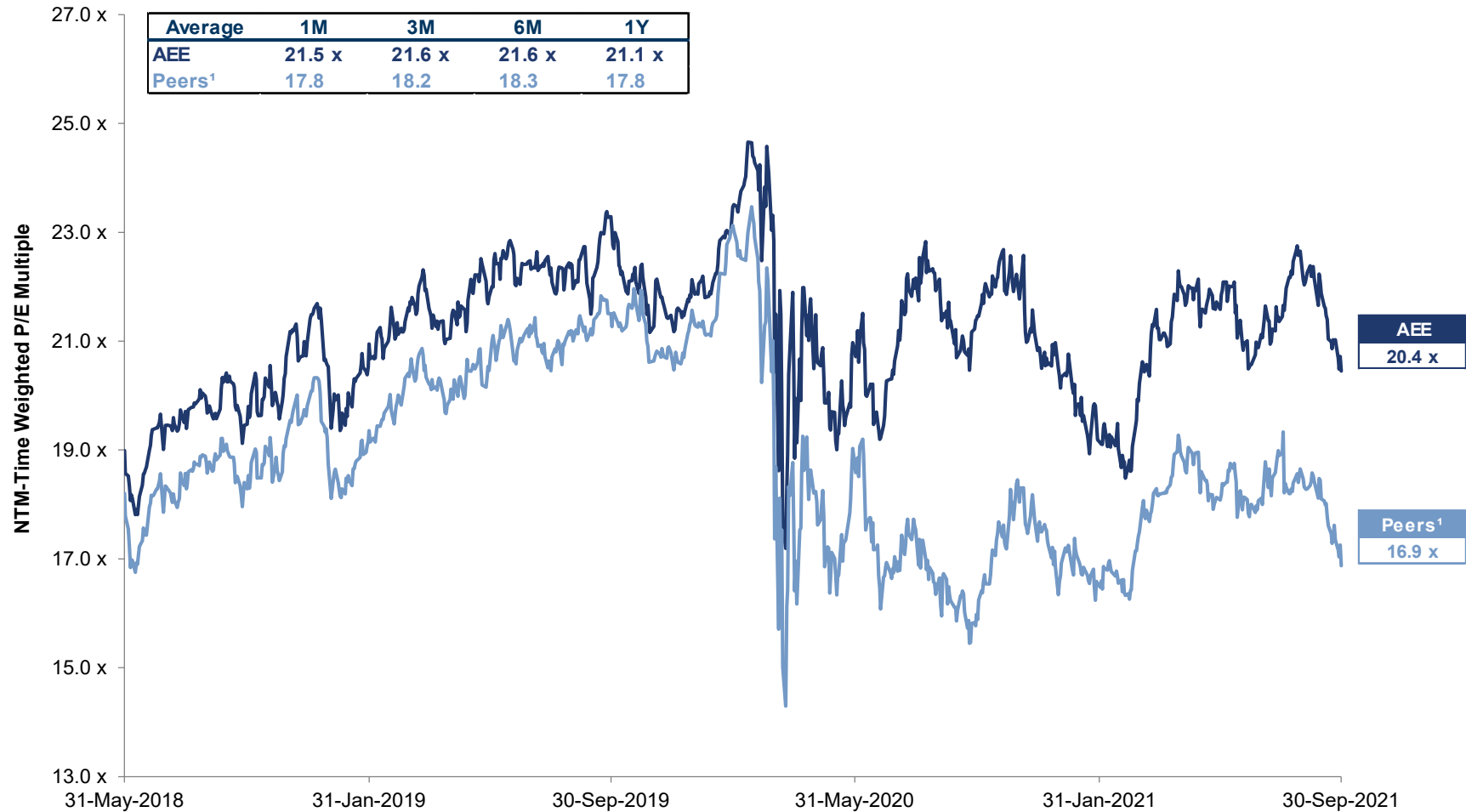
Source: Bloomberg market data as of 4-Oct-2021

<sup>1</sup> Represents peer average. Peers consist of ALLETE, Alliant Energy, American Electric Power Company, Duke Energy, Entergy, Evergy, NextEra Energy, NorthWestern Corporation, OGE Energy, Otter Tail Corporation, Pinnacle West Capital, Portland General Electric, and Xcel Energy.

# Ameren Corp. NTM P/E Multiples Vs. Electric Utility Peers

May 31, 2018 to September 30, 2021

DTS-R2



Source: Bloomberg market data as of 4-Oct-2021

<sup>1</sup> Represents peer median. Peers consist of ALLETE, Alliant Energy, American Electric Power Company, Duke Energy, Entergy, Energy, NextEra Energy, NorthWestern Corporation, OGE Energy, Otter Tail Corporation, Pinnacle West Capital, Portland General Electric, and Xcel Energy.

**AUTHORIZED COMMON EQUITY RATIO - ELECTRIC PROXY GROUP UTILITY OPERATING COMPANIES  
DTS-R3**

			<b>EFFECTIVE EQUITY RATIO</b>							
<b>Company Name</b>	<b>States of Operation</b>	<b>Docket No.</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Minnesota Power Entrprs Inc.	Minnesota	D-E-015/GR-19-442	54.29%	54.29%	54.29%	54.29%	54.05%	53.81%	53.81%	NA
Interstate Power & Light Co.	Iowa	D-RPU-2019-0001	44.24%	44.24%	44.24%	44.24%	46.63%	49.02%	50.01%	51.00%
Interstate Power & Light Co.	Minnesota	D-E-001/GR-10-276	47.74%	47.74%	47.74%	47.74%	47.74%	47.74%	47.74%	47.74%
Wisconsin Power and Light Co	Wisconsin	D-6680-UR-122 (Elec)	49.89%	50.46%	51.33%	52.20%	52.10%	52.00%	52.27%	52.53%
Kentucky Power Co.	Kentucky	C-2020-00174	NA	NA	NA	NA	41.68%	41.68%	41.68%	42.47%
Columbus Southern Power Co.	Ohio	C-11-0351-EL-AIR	50.64%	50.64%	50.64%	50.64%	50.64%	50.64%	50.64%	50.64%
Public Service Co. of OK	Oklahoma	Ca-PUD201800097	45.84%	45.84%	44.00%	44.00%	46.26%	48.51%	NA	NA
Kingsport Power Company	Tennessee	D-16-00001	NA	NA	40.25%	40.25%	40.25%	40.25%	40.25%	40.25%
AEP Texas Inc.	Texas	D-33309	40.00%	40.00%	40.00%	40.00%	40.00%	40.00%	41.25%	42.50%
Southwestern Electric Power Co	Texas	D-46449	49.10%	49.10%	49.10%	48.78%	48.46%	48.46%	48.46%	48.46%
Appalachian Power Co.	Virginia	C-PUR-2020-00015	42.79%	42.89%	42.89%	42.89%	42.89%	42.89%	42.89%	NA
Appalachian Power Co.	West Virginia	C-18-0646-E-42T	42.20%	44.68%	47.16%	47.16%	47.16%	48.66%	50.16%	50.16%
Duke Energy Kentucky Inc.	Kentucky	C-2019-00271	NA	NA	NA	NA	49.25%	49.25%	48.74%	48.23%
Duke Energy Carolinas LLC	North Carolina	D-E-7, Sub 1214	53.00%	53.00%	53.00%	53.00%	52.50%	52.00%	52.00%	52.00%
Duke Energy Progress LLC	North Carolina	D-E-2, Sub 1219	53.00%	53.00%	53.00%	53.00%	52.50%	52.00%	52.00%	52.00%
Duke Energy Ohio Inc.	Ohio	C-17-0032-EL-AIR	53.30%	53.30%	53.30%	53.30%	52.03%	50.75%	50.75%	50.75%
Duke Energy Carolinas LLC	South Carolina	D-2018-319-E	53.00%	53.00%	53.00%	53.00%	53.00%	53.00%	53.00%	53.00%
Duke Energy Progress LLC	South Carolina	D-2018-318-E	44.72%	44.72%	48.86%	53.00%	53.00%	53.00%	53.00%	53.00%
Entergy New Orleans LLC	Louisiana	D-UD-18-07 (elec.)	NA	NA	NA	NA	NA	50.00%	50.00%	50.00%
Evergy Kansas Central Inc.	Kansas	D-18-WSEE-328-RTS	52.63%	52.63%	NA	NA	51.24%	51.24%	51.24%	51.24%
Evergy Metro Inc	Kansas	D-18-KCPE-480-RTS	51.82%	50.48%	50.48%	50.48%	49.09%	49.09%	49.09%	49.09%
Evergy Metro Inc	Missouri	C-ER-2018-0145	52.30%	51.20%	50.09%	49.65%	49.20%	NA	NA	NA
Evergy Missouri West	Missouri	C-ER-2018-0146	52.30%	52.30%	52.30%	NA	NA	NA	NA	NA
NorthWestern Corp.	Montana	D2018.2.12	48.00%	48.00%	48.00%	48.00%	48.00%	48.69%	49.38%	49.38%
NorthWestern Corp.	South Dakota	D-EL14-106	31.13%	31.13%	NA	NA	NA	NA	NA	NA
Oklahoma Gas and Electric Co.	Oklahoma	Ca-PUD201800140	NA	NA	NA	53.31%	53.31%	NA	NA	NA
Otter Tail Power Co.	Minnesota	D-E-017/GR-15-1033	51.70%	51.70%	51.70%	52.10%	52.50%	52.50%	52.50%	52.50%
Otter Tail Power Co.	North Dakota	C-PU-17-398	53.30%	53.30%	53.30%	53.30%	52.90%	52.50%	52.50%	52.50%
Otter Tail Power Co.	South Dakota	D-EL18-021	NA	NA	NA	NA	NA	52.92%	52.92%	52.92%
Arizona Public Service Co.	Arizona	D-E-01345A-16-0036	53.94%	53.94%	53.94%	54.87%	55.80%	55.80%	55.80%	55.80%
Portland General Electric Co.	Oregon	D-UE-335	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%
Public Service Co. of CO	Colorado	D-19AL-0268E	56.00%	56.00%	56.00%	56.00%	56.00%	NA	55.61%	55.61%
Northern States Power Co.	Minnesota	D-E-002/GR-20-723	52.56%	52.53%	52.50%	52.50%	52.50%	52.50%	52.50%	NA
Northern States Power Co.	North Dakota	C-PU-20-441	52.56%	52.56%	52.56%	52.56%	52.56%	52.56%	52.56%	52.53%
Southwestern Public Service Co	New Mexico	C-19-00170-UT	53.89%	53.89%	NA	NA	53.97%	53.97%	54.37%	54.77%
Northern States Power Co.	Wisconsin	D- 4220-UR-124 (Elec)	52.54%	52.52%	52.49%	51.45%	51.45%	51.99%	52.52%	52.52%
Southwestern Public Service Co	Texas	D-49831	NA	51.00%	51.00%	51.00%	NA	NA	54.62%	54.62%
<b>MEAN</b>			49.48%	49.68%	49.90%	50.09%	49.96%	49.92%	50.45%	50.63%
<b>LOW</b>			31.13%	31.13%	40.00%	40.00%	40.00%	40.00%	40.25%	40.25%
<b>HIGH</b>			56.00%	56.00%	56.00%	56.00%	56.00%	55.80%	55.80%	55.80%
<b>MEDIAN</b>			51.76%	51.20%	51.00%	51.45%	51.35%	50.75%	51.62%	51.24%

**Notes:**

[1] Source: SNL Financial

[2] Includes electric operating companies in the proxy group

[3] Operating Subsidiaries with rate cases not covered by SNL Financial were excluded from the analysis.

[4] Analysis excludes operating companies that operate in jurisdictions that include zero cost capital items in the capital structure, including Arkansas, Florida, Indiana, and Michigan.

[5] Analysis excludes operating companies for which the company's latest rate case was decided in 2007 or prior, i.e., only companies with a rate case in 2008 or later are included.

